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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Soft Statistics Raise Concerns . . .

At first blush, last week's government report on economic growth in the first quarter might suggest that the business expansion seems about over. According to the Commerce Department, the nation's inflation-adjusted output of goods and services grew at a 1.3 percent seasonally adjusted annual rate in the January-March period. This was not only less than one-third of the 4.3 percent annual rate of increase in the fourth quarter of 1984—it was also well below the 2.1 percent rate of growth reported in the so-called "flash" GNP estimate last month.

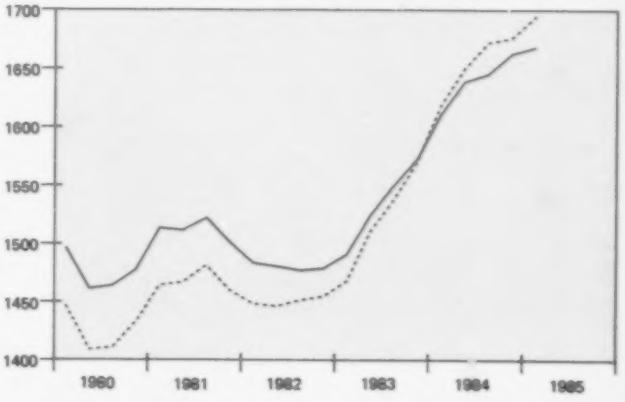
Although the first quarter's economic performance was the slowest since the end of 1982, it was, nevertheless, a continuation of the trend which began last summer. Then, the robust growth of the early stage of the business recovery switched to a more moderate pace—a not unusual development at this point in an expansion. Thus, after growing at a sizzling seven percent clip during the first six quarters of the current business upswing, real GNP in the past three quarters subsequently expanded at a more subdued 2½ percent pace. Besides the stage of the cycle, the slower rate of GNP growth also reflects the degree of damage that the unprecedented strength of the dollar has done to our manufacturing industries and foreign trade position.

The top-line GNP number, nevertheless, obscures the underlying strength of business activity. This is partly because a statistical quirk caused the implicit price deflator to show a rise of 5.3 percent annual rate in the first quarter—not only substantially above the 2.8 percent annual rate in the preceding quarter, but also suspiciously higher than recent readings of both the producer and consumer price indexes. This seeming acceleration in the rate of inflation as measured by the implicit price deflator reflected several one-shot developments—among them a government pay raise that went into effect in January, 1985, and an increase in usage of fuel and electricity. This runup in the deflator depressed real GNP growth.

. . . That The Economy Is Faltering . . .

On the other hand, spending by consumers and business is still growing at a healthy clip. Real domestic demand (real GNP minus net exports), rose at a 4½ percent rate in the first quarter, compared with an increase of only 0.9 percent in the previous quarter. Both the consumer and the business sectors were the major driving forces behind this. Consumer expenditures grew at a seasonally adjusted annual rate of 4.7 percent in the January-March period, while business spending for plant and equipment and inventory investment expanded at an annual rate of eight percent.

REAL GROSS NATIONAL PRODUCT (LINE)
VS. REAL DOMESTIC DEMAND (DOT)
(BILLIONS OF 1972 DOLLARS)



But this strong domestic demand did not translate into corresponding growth in domestic output because a greater chunk of it was satisfied from abroad (see chart). The surge in imports in the first quarter was the main factor contributing to slower GNP growth. After adjusting for inflation, imports in the January-March period soared 26.2 percent at an annual rate. At the same time, U.S. exports, in real terms, fell 8.2 percent from their level of the preceding quarter. Thus, the inflation-adjusted net export deficit in the GNP accounts increased by $12.7 billion from the final quarter of 1984. If

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the net export deficit in first-quarter 1985 had remained at the same level as in the fourth quarter of 1984, the real gross national product would have increased at a seasonally adjusted 4½ percent annual rate.

Another way to look at it is that escalating imports captured 52 percent of the first quarter's growth in real domestic demand. This means that the foreign trade sector is becoming an increasing drag on this business expansion, causing a shift of an increasing portion of our production overseas. As a consequence, many monthly business indicators pertaining to such goods-producing sectors as manufacturing and agriculture are now pointing to a sluggish economy. Total manufacturers' shipments have been essentially flat since early autumn, nondefense capital goods orders had been lackluster until February, and manufacturing employment has been flat since last April.

. . . But These Fears Are Misplaced

Is a recession looming on the horizon? It seems unlikely because the signs of excesses or imbalances which usually foreshadow the culmination of a business expansion, such as overbuilt inventories, accelerating inflation, capacity shortages and labor market tightness are not present.

Therefore, the economy should continue to expand at a modest pace over the balance of 1965. The consumer sector, which makes up two-thirds of overall

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 4/17/85	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	172.597	+ 2.684	+11.616
Loans to Depository Inst.	1.198	– .665	+ .447
Float	.561	– .252	– .108
Total Reserve Bank Credit	186.808	+ 2.187	+15.244
Treasury Deposits with Federal Reserve Banks	3.720	– .469	– .244
Currency in Circulation	181.698	+ .364	+10.838
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.287	+ 1.016	+ .549
	4/10/85		
Member Bank Reserves: Total Reserves Held	40.757	+ .912	+ 3.632
Excess (Deficiency)	.513	– .296	+ .168
Net Free Reserves	.033	– .326	+ .965

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (4/8/85)	573.6	+ 8.4‡	+ 6.5‡
M2 (March '85)	2,429.0	+ 9.7	+ 9.0
M3 (March '85)	3,054.5	+ 7.9	+ 10.5
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 4/19/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.65%	7.85%	8.10%
* Federal Agencies	8.25	8.40	8.89
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	9.44	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.18	8.30	9.15

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.50%	May	8.10%
15- 29 days	7.80	Jun.	8.10
30- 59 days	8.05	Jul.	8.10
60- 89 days	8.10	Aug.	8.10
90-179 days	8.10	Sep.	8.10
180-239 days	8.15	Oct.	8.10
240-270 days	8.15		

‡Industrial Paper—Prime			
30- 89 days	8.00%	†Federal Funds Effective Rate	7.75%
90-120 days	8.10		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85n	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85n	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85n	1.3	4.3	10.1
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Mar '85	2.4%	– 1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Mar '85	107,119	106,685	104,123
Unemployment as % of Civilian Labor Force†	Mar '85	7.3%	7.3%	7.8%
Personal Income*	Mar '85n	$ 3,156	$ 3,140r	$ 2,941
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100)†	Mar '85n	165.4	164.9r	160.8
Net Change in Consumer Installment Credit †	Feb '85	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Feb '85	–$ 11.45	–$ 10.29	–$ 10.38
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Mar '85n	1,895	1,631r	1,700
New Construction Expenditures*	Feb '85	$ 320.6	$ 316.2	$ 300.4
Total Business Inventories †	Feb '85	$ 576.9	$ 574.8	$ 531.9
Total Business Sales †	Feb '85	$ 419.2	$ 418.3	$ 401.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

GNP, will remain an important driving force behind the economy's forward momentum. For example, continued growth in employment, as well as an increase in hours worked in March, contributed to a good-sized leap in wages and salaries. Not coincidentally, the Conference Board recently reported that its buying plan index is at its highest level in nine months. Individual tax refund payouts, which so far have been running more than $6 billion behind last year's disbursement rate, will be an important source of funds to consumers and should bolster their spending later this spring.

Even now, housing starts surged 16 percent in March. What is more, the 11 percent rise in building permits—a harbinger of future construction activity—suggests that homebuilding will remain an important source of growth in the coming months. Another element of strength will come from the business sector. The latest survey of capital spending plans for 1985 shows that businesses now intend to spend more on plant and equipment in 1985 than they planned three months ago. In support of this, business orders for nondefense capital goods surged 27.5 percent in February—one of the largest increases on record. Yet another encouraging sign suggesting continued growth in business activity in the months ahead comes from the Commerce Department's index of leading economic indicators. It rose 0.7 percent in February, following a 1.5 percent rise in January.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/3/85)	156,748	– 1,082	+13,949
New York City (4/10/85)	32,582	– 501	+ 3,977
Commercial Paper (4/10/85)	249,064	– 318	+45,269

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/3/85)	256,254	+ 609	+ 21,307
New York City (4/10/85)	61,210	– 778	+ 30

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/3/85)	668,516	+ 5,266	+ 69,801
New York City (4/10/85)	142,195	– 3,193	+ 9,920

Financial Markets

	Friday 4/19/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.05%	– .25	– 2.02
180-Day Bills†	8.40	– .32	– 2.05
Longest Bills†	8.85	– .26	– 2.07
Recent Issues:			
10³/₄s 3/31/87	9.74	– .33	
11¹/₄s 3/31/89	10.47	– .34	
11¹/₄s 2/15/95	11.14	– .26	
11¹/₄s 2/15/15	11.25	– .15	
Municipals:			
Bond Buyer–20 Bond Index* (4/18/85)	9.25%	– .14	– .64
Blue List Total ($ Million)	$1,228	+ $ 58	– $283
30-Day Visible Supply ($ Million)	$3,169	– $144	+ $665
Total	$4,397	– $ 86	+ $382
Corporates:			
Moody's Aa Composite (4/18/85)	12.55%	– .16	– .92
30-Day Visible Supply ($ Million)	$ 845	+ $ 35	+ $120
Stocks:			
Dow-Jones Averages:			
Industrials	1,266.56	+ .88	+ 108.48
Transportation	584.92	– 13.29	+ 84.10
Utilities	155.21	– .67	+ 28.52
65 Stocks	511.88	– 3.23	+ 59.11
Standard and Poor's 500 Stocks	181.11	+ .57	+ 23.09
N.Y.S.E. Composite Index	105.00	+ .36	+ 14.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,660	– 1,764	+ 8,317

* 46% Taxable equivalent 17.13%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/19/85	Week Ago
Overnight	7.75%	8.50%
1 month	8.25	8.63
3 month	8.44	8.75
6 month	8.69	9.00
1 year	9.31	9.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.25%	11.40%
Long Term (7 to 15 yrs.)	11.50	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/19/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01665	60.0450
Canada	.7401	1.3511
Denmark	.09337	10.7100
France	.1101	9.0850
Germany	.3359	2.9770
Italy	.0005252	1904.00
Japan	.004040	247.50
Mexico	.004082	245.00
Netherlands	.2967	3.3705
Switzerland	.4025	2.4820
U.K.	1.2920	.7740

Great golf! Great cause! Great price!

The Manufacturers Hanover Westchester Classic will be held at the Westchester Country Club in Harrison, N.Y., June 3-9, 1985.

- Tickets for the Sports House and Grounds for 7 days—$80. Grounds only—$45. Monday and Tuesday (practice rounds)—$5 or $3 per day. Wednesday (the Pro-Am)—$10 or $6. Thursday, Friday, Saturday, Sunday—$18 or $15 each day.
- Scott Simpson, defending champion and other top pros from the PGA Tour, will compete for $500,000 in prize money.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 2, thereafter at the gate. To charge with MasterCard or VISA call 212-808-8513.
- For more information call (914) 967-5356.

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SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014